

Before the Director (Market Supervision & Registration Department)
Securities Market Division
Securities and Exchange Commission of Pakistan

In the matter of Show Cause Notice dated May 14, 2013 issued to
M/s. Live Securities Limited under Section 22 of the
Securities and Exchange Ordinance, 1969

Date of Hearing: May 31, 2013

Present at the Hearing: Authorized Representatives of M/s. Live Securities Limited

1. Mr. Altaf Husein (Chief Operating Officer)
2. Mr. Muhammad Rizwan (Manager Accounts)
3. Mr. Naeem Yahya (Head of Settlement)
4. Raja Izhar Ahmed (Branch Manager-Islamabad)

Representing (MSRD): Ms. Asima Wajid (Deputy Director (MSRD))

ORDER

This Order shall dispose of the proceedings initiated through a Show Cause Notice No. 4/BRK-138/SE/SMD/2002 dated May 14, 2013 (“**the SCN**”) issued to M/s. Live Securities Limited (“**the Respondent**”) under Section 22 of the Securities and Exchange Ordinance, 1969 (“**the Ordinance**”).

2. **WHEREAS**, the Commission in exercise of its powers under Sub-Section (1) of Section 6 of the Ordinance read with Rule 3 and Rule 4 of the Stock Exchange Members (Inspection of Books and Record) Rules, 2001 (“**the Inspection Rules**”) ordered an inspection vide order No. SMD/MS&CID-C&IW/10-1(124)/2012 dated July 9, 2012 of the books and record required to be maintained by the Respondent. On review of the inspection report various *prima facie* violations regarding Net Capital Balance (“**NCB**”), charging of late payment charges and segregation of client’s assets were observed and accordingly the subject SCN was issued, the contents of which are reproduced below:-



“SUBJECT: SHOW CAUSE NOTICE IN THE MATTER OF INSPECTION OF BOOKS AND RECORD OF M/S. LIVE SECURITIES LIMITED – TREC HOLDER OF KARACHI STOCK EXCHANGE LIMITED”

WHEREAS, M/s. Live Securities Limited (‘LSL’) is a Trading Right Entitlement Certificate (TREC) holder of the Karachi Stock Exchange Limited and registered as a broker with the Securities and Exchange Commission of Pakistan (“**Commission**”) under the Brokers and Agents Registration Rules, 2001 (“**Brokers Rules**”).

2. **WHEREAS**, the Commission in exercise of its powers under Sub-Section (1) of Section 6 of the Securities and Exchange Ordinance, 1969 (“**Ordinance**”) read with Rule 3 and Rule 4 of the Stock Exchange Members (Inspection of Books and Record) Rules, 2001 (“**Inspection Rules**”) ordered an inspection vide order No. SMD/MS&CID-C&IW/10-1(124)/2012 dated July 9, 2012 of the books and record required to be maintained by LSL.

3. **WHEREAS**, on review of the inspection report it has come to the notice of the Commission that Net Capital Balance (“**NCB**”) as of December 31, 2011 as calculated by LSL and certified by M/s. Haroon Zakaria & Co. Chartered Accountants, is not in accordance with the Third Schedule of the Securities and Exchange Rules, 1971 (“**1971 Rules**”) and has various irregularities. Consequently after incorporating adjustments, in trade receivables, securities purchased for clients, trade creditors and other liabilities, the NCB shows negative balance of Rs.378.94 million and is overstated by Rs.414.77 million.

	<i>As on December 31, 2011</i>	
	<i>Amount in Rupees</i>	
	<i>As submitted by LSL</i>	<i>Calculated by Inspection Team</i>
Current Assets		
Cash at Bank	3,970,314	3,970,314
Trade Receivables	42,329,707	40,027,704
Investment in Listed Securities in the name of Company	264,945	264,945
Securities Purchased for clients (overdue for more than 14 days)	261,585,265	165,519,238
TOTAL CURRENT ASSETS (A)	308,150,231	209,782,201
Current Liabilities		
Trade payables (excluding overdue for more than 30 days)	10,819,418	10,484,019
Other Liabilities	261,502,599	578,234,207
TOTAL CURRENT LIABILITIES (B)	272,322,017	588,718,226
NET CAPITAL BALANCE (A-B)	35,828,214	(378,936,025)

4. **AND WHEREAS**, prima facie, it appears that LSL by submission of overstated NCB has given information which it had reasonable cause to believe to be false or incorrect in material

particular in violation of Section 18 of the Securities and Exchange Ordinance, 1969 (“**Ordinance**”) which reads as follows:-

“No person shall, in any document, paper, accounts, information or explanation which he is, by or under this Ordinance, required to furnish , or in any application made under this Ordinance, make any statement or give any information which he knows or has reasonable cause to believe to be false or incorrect in any material particular.”

5. **WHEREAS**, ledger statement of LSL’s propriety account depicts only a single trade, however, the trading record, as available with the Commission, shows active trading in that account. In this regard LSL has failed to clarify the reasons for not recording the transactions made in the propriety account. Details of the said transactions are as follows:

Date	Time	UIN	Symbol	Qty	Rate	B/S	Ticket #	Exchange
02-04-2012	1051220005	0042674	TRG	237,540	4.00	S	34109729	K
03-04-2012	0945160065	0042674	SMBL	235,607	4.39	B	32381359	K
06-04-2012	1445180037	0042674	SMBL	204,395	4.22	B	32787875	K
25-04-2012	1247260029	0042674	LOTPTA	204,043	9.10	S	34135854	K
03-04-2012	1235560006	0042674	SMBL	200,000	4.34	B	32431879	K
04-04-2012	1127220053	0042674	LOTPTA	200,000	8.94	B	32527369	K
25-04-2012	1135040043	0042674	LOTPTA	200,000	9.05	S	31420850	K
05-04-2012	1107050018	0042674	SMBL	150,000	4.34	S	32637941	K
11-04-2012	1455490012	0042674	SMBL	149,788	4.30	B	33150560	K
24-04-2012	1200370031	0042674	NETSOL	134,749	16.74	B	34013639	K
02-04-2012	1225380019	0042674	PAEL	132,651	7.59	B	32334105	K
07-05-2012	1516040007	0042674	HMB	123,765	18.74	B	34846676	K
15-05-2012	1255230014	0042674	BAFL	107,200	17.25	S	35380436	K
06-04-2012	1548260047	0042674	TRG	105,899	4.59	S	32815252	K
03-04-2012	0945160055	0042674	SMBL	100,000	4.35	B	32381349	K
04-04-2012	1323160025	0042674	PAEL	100,000	6.96	B	32555028	K
05-04-2012	1107050017	0042674	SMBL	100,000	4.34	S	32637940	K
05-04-2012	1529570019	0042674	PACE	100,000	3.30	S	327223643	K
06-04-2012	1548260036	0042674	TRG	100,000	4.65	S	32815241	K
25-04-2012	1118490016	0042674	TRG	100,000	3.90	S	34116313	K
28-05-2012	1529330059	0042674	BIPL	100,000	11.90	S	36085117	K
04-06-2012	1523300031	0042674	JSCL	100,000	14.91	B	36418943	K

6. **WHEREAS**, Rule 8 of the 1971 Rules provides that every member/TREC Holder shall prepare and maintain, as required by Sub-Section (1) of Section 6, the books of accounts and other documents, in a manner that should disclose a true, accurate and up-to-date position of his business. However, the above instances reflect non-compliance of the 1971 Rules.

7. **WHEREAS**, Regulation 41(1)(c) of the General Regulations of the Exchange (“**General Regulations**”) requires the broker to maintain a collateral account under his participant account in CDS for all the clients. The said account is required to be used exclusively for instances where outstanding payments are not received from the clients in respect of securities purchased on

their behalf and relevant purchase obligations are to be settled. However, during course of the said inspection, it has come to the notice that LSL has not yet opened the collateral account under its participant account, thereby, violating the said requirement.

8. **WHEREAS**, it has been observed that LSL has been charging late payment charges to its clients at the rate of 18% p.a. to 24% p.a. on monthly basis, who do not clear their dues in time, and resultantly has earned Rs.113 million as per LSL's trial balance for six months period ended December 31, 2011 in contravention of Section 16 of the Ordinance, which is reproduced below for convenience.

"No member or associate shall, in contravention of any rules under this Ordinance, directly or indirectly,-

- a) Extend or maintain credit, or arrange for extension or maintenance of credit, to or for any person for the purpose of purchasing or carrying any security; or*
- b) Borrow on any security or lend or arrange for the lending of any carried for the account of a customer; or*
- c) Pledge or arrange for the pledging of any security carried for the account of any customer."*

9. **WHEREAS**, under Section 24 of the Central Depositories Company of Pakistan Act, 1997 ("**CDC Act 1997**") participants are prohibited to handle or authorize or permit any handling of book-entry securities entered in the sub-accounts maintained under its account without authority of the sub-account holder.

10. **AND WHEREAS**, Section G of the Sub-Account Opening Form for individuals as prescribed by the Central Depository Company of Pakistan Limited ("**CDC**"), provides that handling of book-entry securities for all purposes other than mentioned in the said Form, requires specific authority in writing from the sub-account holder(s) in favor of the Participant. For handling of the book-entry securities worth Rs. 500,000/- and above, the above mentioned specific authority shall be obtained on non-judicial stamp paper.

11. **WHEREAS**, it has been observed that copies of mandates provided by the LSL were on simple papers, which lead to the conclusion that LSL has prima facie failed to meet the Regulatory Requirements in respect of handling of clients' securities as provided under the CDC Act 1997 and CDC Regulations.

12. **WHEREAS**, in light of the facts mentioned above, prima facie it appears that LSL is in contravention of Third Schedule of the 1971 Rules read with Section 18 of the Ordinance, Section 16 of the Ordinance, Rule 8 of the 1971 Rules, Regulation 41(1)(c) of the General Regulations and Section 24 of the CDC Act 1997, the contravention of which invokes penalty under Section 22 of the Ordinance and Section 28 of the CDC Act 1997.

13. **WHEREAS**, Sub-Section (1) of Section 22 of the Ordinance provides that:

" If any person refuses or fails to furnish any document, paper or information which he is required to furnish by or under this Ordinance; or refuses or fails to comply with any order or direction of the Commission made or issued under this Ordinance;

or contravenes or otherwise fails to comply with the provisions of this Ordinance or any rules or regulations made thereunder, the Commission may if it is satisfied after giving the person an opportunity of being heard that the refusal, failure or contravention was willful, by order direct that such person shall pay to the Commission by way of penalty such sum not exceeding fifty million rupees as may be specified in the order and in the case of continuing default, a further sum calculated at the rate of two hundred thousand rupees for every day after the issue of such order during which the refusal, failure or contravention continues.”

14. **AND WHEREAS**, Section 28 of the CDC Act 1997 provides that:

“Notwithstanding anything contained in Sub-Section (1) whoever knowingly and willfully contravenes or attempts to contravene or abets the contravention of the provisions of Section 24 shall be punishable with a fine which may extend to one million rupee and to further fine not exceeding twenty thousand rupee for every day after the first contravention during which the contravention continues or with imprisonment for a term which may extend to five years, or with both”

15. **NOW THEREFORE**, you are hereby called upon to show cause in writing by May 21, 2013 as to why action as provided under Section 22 of the Ordinance and/or Section 28 of the CDC Act 1997 may not be initiated against LSL for violation as indicated above. You are further directed to appear in person or through an authorized representative (with documentary proof of such authorization), on **May 23, 2013** at 11:00 a.m. at the SECP Headquarters, 9th Floor, NIC Building, Jinnah Avenue, Blue Area, Islamabad. You are advised to bring all relevant record in original, which you may consider necessary for clarification/or in your defense. This notice sufficiently discharges the Commission’s obligation to afford LSL an opportunity of hearing in terms of Section 22 of the Ordinance and in case of your failure to appear on the stated date of hearing it will be deemed that LSL has nothing to say in its defense and the matter will be decided ex-parte on the basis of available record.

16. Please note that this show cause is being issued without prejudice to any action, which may be taken or warranted for the above said or any other default under the above referred or any other provision of law. Kindly acknowledge receipt of this show cause notice through return fax or courier at your earliest

Hasnat Ahmad
Director (MSRD)”

3. Pursuant to the said SCN, the Respondent requested the Commission to adjourn the hearing and accordingly the hearing was rescheduled for May 31, 2013. The Respondent appeared for hearing on the said date and also submitted its written comments before the undersigned and made the following assertions.



“Trade Receivables

We have shown the balance of trade debtor amounting to Rs.42.329 million as on 31st December 2011 (after deduction of more than 14 days' overdue balance) in Net Capital, while the SECP Inspection team has calculated the balances of debtors and reduced it to Rs.40.027 million (deduction of Rs.2.302 million). In Annexure IV of SECP Report, the Inspection team has deducted the markup amount of each client and reduced the balance to trade receivable but the markup amount (Rs.337.996 million) in total has already been deducted from debtor's total amount and it has been verified by SECP inspection team which is clearly reflected in Annexure VI of SECP Report. It shows that an amount of Rs.2.302 million towards markup was wrongly deducted by the SECP, as it has already been deducted from the total markup amount.

Securities purchased by clients (overdue for more than fourteen days)

The SECP Inspection team has calculated the securities of overdue clients' balances, in which they restricted the balance of securities from Rs.261.585 million (as per LS record) to Rs.165.520 million (as per their working) but the SECP team somehow did not take securities balances of the following clients' in their calculation of Net Capital. (Enclosed please find the ledger of the following clients).

Code	Client Title	DR. Balance As on December 31, 2011	Securities Balance not taken by SECP
67009	Sohial Munir	75,411,525/-	11,067,188/-
67020	Wincom (Pvt.) Ltd	26,550,013/-	14,871,094/-
95056	Abdul Samad	11,497,226/-	9,437,624/-
24150	Miraj Uddin	9,679,997/-	8,216,695/-
95032	Mehreen Nazir	9,168,741/-	8,665,918/-
102027	Abdul Qadir	8,901,804/-	8,330,303/-
102026	Haji Mehfooz	7,065,028/-	7,065,028/-
102025	Syed Aziz	6,979,919/-	6,885,210/-
102015	Muhammad Arif	6,464,769/-	2,958,933/-
103026	Mairaj M. Iqbal	6,009,634/-	499,839/-
103032	Adeel Ahmed Siddiqui	4,836,481/-	4,782,780/-
95058	Adeel Qureshi	4,110,220/-	4,064,441/-
95057	Sajjad Nawaz	3,963,893/-	3,919,740/-
102013	Mohammad Akber	3,846,788/-	3,700,840/-
1573	Tayyab	3,707,874/-	3,666,704/-
103025	Umair Ahmed/Shabbir	3,680,505/-	3,639,639/-
102028	Farhan Ali Gohar	3,592,335/-	2,812,276/-
95060	Zeeshan Sabir	3,499,257/-	3,460,384/-
103028	Hshim Hussain	3,424,242/-	3,279,591/-
95059	Anas Saeed	3,402,285/-	2,587,317/-
24112	M. Yousuf/ Nasreen	3,039,186/-	3,025,311/-
	Total	208,831,722/-	116,936,855/-

Moreover, the security balance of following accounts has been wrongly calculated by SECP Inspection team in their calculation of Net Capital Balance by Rs.19.546 million. As per detail given below:

Code	Client Title	Security taken by SECP Team	Actual Value of Security
107008	M. Nawaz Qureshi	21,648,374/-	2,101,989/-

It is therefore, submitted that if proper calculation in respect of securities be taken, then the Net Balance of Securities of Client shall come to Rs.261,585 million instead of Rs.165,520 million.

Transfer of amount from Trade Creditor to Other Liabilities by Inspection Team:

The following balances of clients have been treated by SECP Inspection team as Other Liabilities while our records reflect these balances as trade creditor:

Code	Client Title	Balance as on December 31, 2011
1365	Obaid Altaf	285,371,470/-
1348	Faizan Shaikh	19,744,938/-
66011	Abdul Razzaq	614,837/-
66007	Abdul Sattar	11,000,363/-
	Total	316,731,608

All the above client balances are trade creditor in our record. In the subsequent year (2012-13) the updated position of the above mentioned clients' are as under.

Client	Position
Obaid Altaf	Trading of shares has started (SAOF/Ledger attached)
Abdul Sattar	Pay off the Liability by Live Securities Limited.

Therefore, it is submitted that the above amounts do not pertain to any loan.

Trading in Proprietary Account

Since banks were not taking shares against clients' pledge account directly through their respective sub accounts hence we were compelled to opt for house account for pledge of shares in bank. As far as identified transactions are concerned, it is submitted that the transaction in LS account are carried out on behalf of the clients and these transactions does not pertain to LS.

Late Payment Charges:

Live Securities Limited has booked late payment charges to those clients, who did not make the payment on time, but all those charges were subsequently reversed at the year end and SECP inspection team also verified the same which can be seen in Annexure VI of SECP inspection report.

Handling of Book Entry Securities:

We have followed the method of taking explicit mandate of those clients, who have permitted us to use their shares as collateral against their debit balance if any.

We did not have the idea of having clients mandate on non-judicial stamp paper and not on plain letter. Since you have bring that thing into our knowledge, from now on ward we will comply with that requirement of getting mandate on non-judicial stamp paper.

Maintenance of Collateral Account:

As per law, a broker can avail the facility of maintenance of a collateral account for three days in a month and transfer the position of those clients who have failed to make payment against purchase of shares on time. Since bank were not providing us pledge facilities for sub account holders hence we had no option but entertain clients otherwise the clients would have shift their account to those brokers who do provide such facility. We have positive intention to follow the directive of regulator and we will move in that direction.

4. I have examined the facts, evidences and documents on record, in addition to written and verbal submissions made on behalf of the Respondent. With regard to the overstatement in trade receivables, it has been observed that the Inspection Team performed the aging of trade receivables based on outstanding days criteria as prescribed in Third Schedule of SEC Rules, 1971, whereas, the Respondent's comments appear to imply that said verification was based on nature of receivables. Moreover, with regard to securities purchased for the clients, since the Respondent held the client's securities in its House Account therefore, the value of securities as per Respondent's back office record was taken.

5. With regard to transfer of the trade creditors of Rs.316.732 million to other liabilities, it has been observed that no trading was witnessed in the said accounts during the period from July 1, 2011 to June 30, 2012. The Inspection Team required the Respondent to provide proper documentation to reflect the true nature of the referred accounts. Moreover, the Inspection Team also highlighted that ledger of the referred clients either stated "H-42" or without any reference to their respective CDC Sub Accounts. It has been observed that the clients provided Rs.316.732 million to the Respondent without any intention to execute the trades in their accounts. Although, the Respondent provided a copy of the Account Opening Form and ledger statement of Mr. Obaid Altaf for the period from January 2013 to May 2013 however, it failed to provide the ledger statement for the period from the year 2008 to the date of inspection. Therefore, contention of the Respondent that the said amount should be classified as trade creditors and not as other liabilities is not tenable.

6. The Respondent's admission to facilitating its clients through its proprietary account, keeping the clients securities in House Account and not maintaining the collateral account imply that the Respondent is not segregating the clients' assets and not maintaining the record (as

required under Rule 8 of the 1971 Rules. The Respondent during the hearing admitted that in order to retain its clientele it facilitates its clients to trade through its proprietary account and clients' shares are placed in its CDC House Account. The Respondent further admitted that it is not maintaining the collateral account; however it intends to open a collateral account. Thus the said violations have been accepted by the Respondent. Moreover, it is pertinent to mention here that the definition of House Account as provided in the Central Depository Company of Pakistan Limited Regulations means an account maintained on the Central Depository Register ("CDR") by an account holder for recording book-entry securities beneficially owned by the account holder. This definition clearly states that only those securities which are beneficially owned by the account holder can be placed in House Account. In this case the Respondent failed to provide any evidence that the securities appearing in its House Account are beneficially owned by it.

7. The Respondent charged late payment charges to its clients in violation of Section 16 of the Ordinance. The contentions of the Respondent that all those charges were subsequently reversed at the year-end under the head of suspense account are not tenable as the same were not reversed in the ledger statements of the respective clients.

8. The Respondent admitted its negligence with regards to obtaining client's mandate on non-judicial stamp paper and gave assurance that in future it would comply with the said requirement.

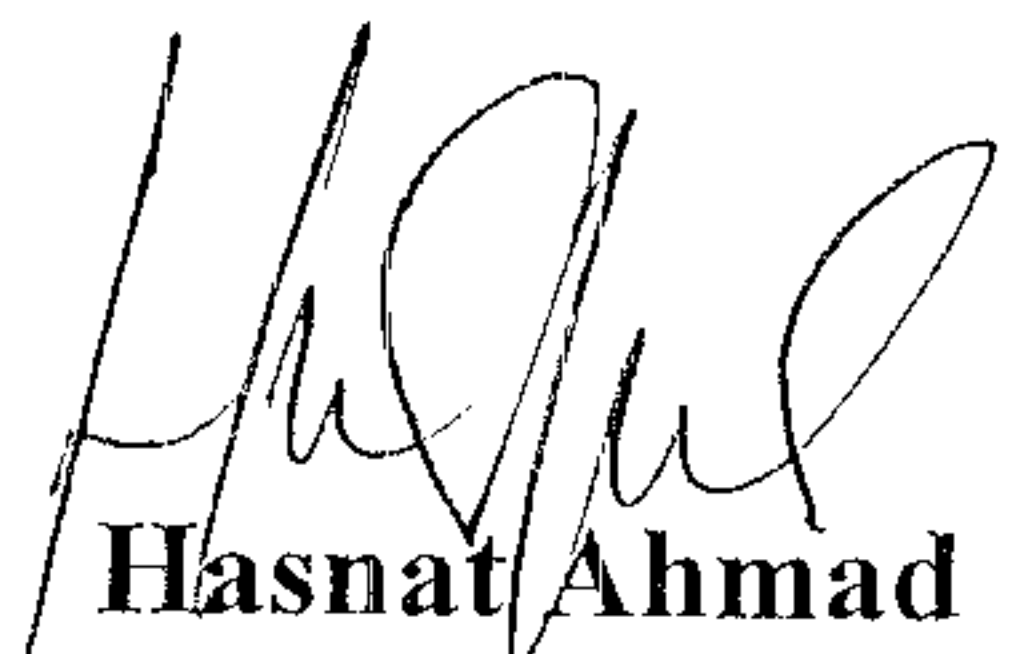
9. In light of the written submission and explanation given by the Respondent mentioned at Para 3 above, I am of the considered opinion that Respondent's justification regarding NCB is not tenable. The Respondent has accepted the violations of trading on behalf of the clients through its proprietary account, keeping the clients' securities in its House Account, non-maintenance of collateral account and charging late payment charges to its clients. Therefore, in exercise of the powers under Section 22 of the Ordinance and Section 28 (2) of the CDC Act, 1997, through this Order, I hereby impose a penalty of Rs. 500,000/- (Rupees Five Hundred Thousand) on the Respondent to be deposited in the account of the Commission being maintained in the designated branches of MCB Bank Limited not later than thirty (30) days from the date of this Order and furnish copy of the deposit challan to the undersigned. The Respondent is further directed to:-

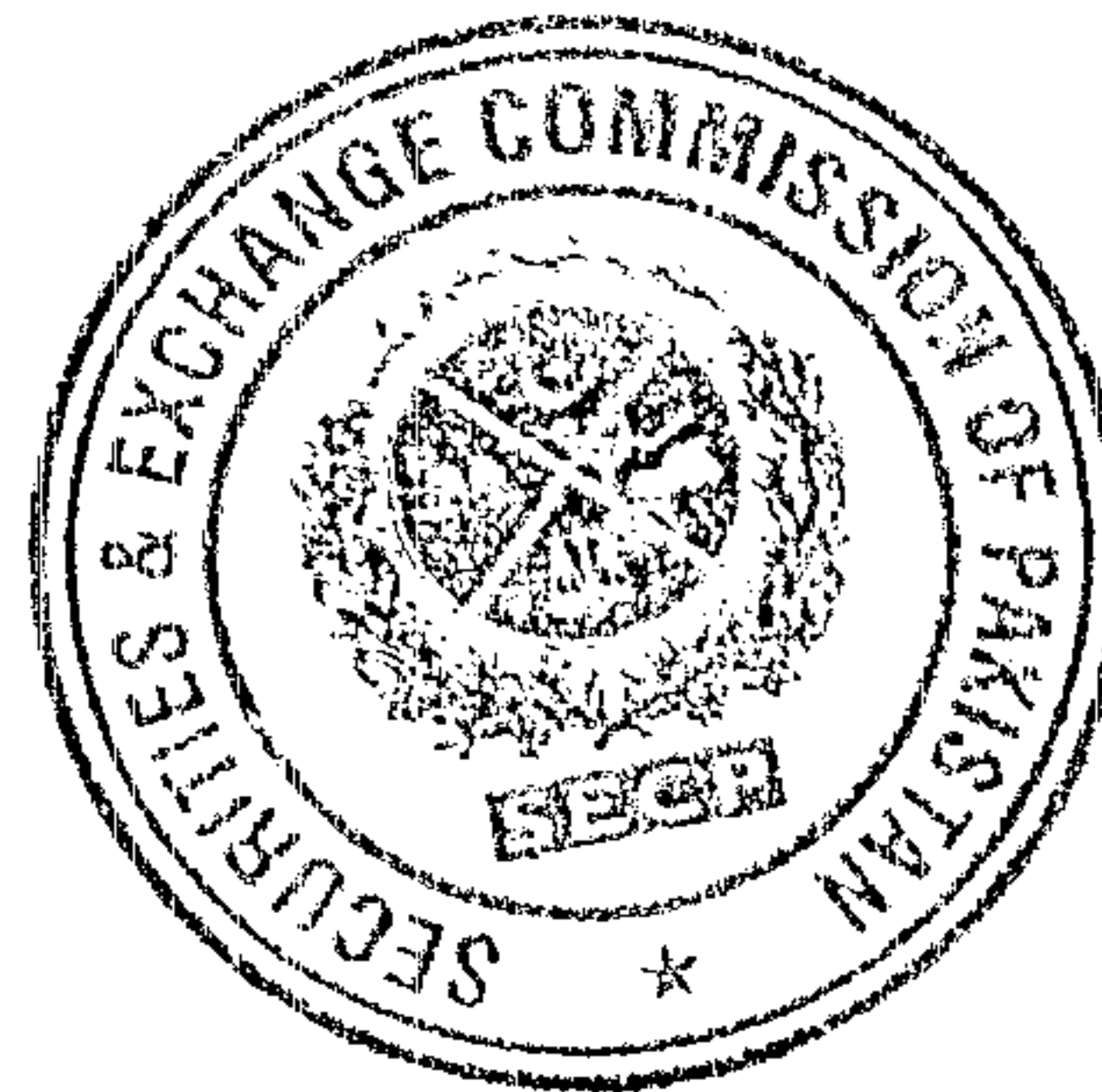
- i. Discontinue the practice of charging the late payment charges to the clients;
- ii. Discontinue to trade for the clients through its proprietary account;
- iii. Properly maintain collateral account;
- iv. Handle the book entry securities in accordance with the regulatory framework;
- v. Transfer the securities owned by the investors from the House Account to the respective sub-accounts of the investors under the supervision of CDC;
- vi. Regularize its NCB in line with the requirements of Third Schedule of the 1971 Rules; and

vii. To ensure full compliance with the Ordinance, rules, regulations and directives of the Commission in future.

10. Moreover, through this Order the Karachi Stock Exchange Limited is directed to vigilantly monitor the trading positions and exposure of the Respondent and to curtail the capital adequacy/exposure limit of the Respondent, as deemed appropriate, till submission of the revised NCB.

11. This Order is issued without prejudice to any other action that the Commission may initiate against the Respondent in accordance with law on matters subsequently investigated or otherwise brought to the knowledge of the Commission.


Hasnat Ahmad
Director (MSRD)



**Announced on October 25, 2013
Islamabad.**